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March 19, 2018

**Michigan State Senate  
Finance Committee**

**Re: COST's Support for S.B. 887, Regarding Contractor Use Tax Liability**

Dear Chairman Brandenburg, Vice Chair Robertson, and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in support of S.B. 887, which would ensure there is no double taxation of transactions under the state use tax and relieve contractors of liability for purchases they have not made. The legislation is consistent with the goals of COST's *Best and Worst of Sales Tax Administration* "Scorecard," an inaugural effort by COST to improve the fairness and efficiency of states' sales and use tax administrative practices. While the Scorecard will be released later this month, we are pleased to "preview" for this Committee that Michigan will receive an A- grade, one of only four states to earn that distinction (the remaining states scored lower). Enactment of S.B. 887 would ensure that Michigan remains a leader in good sales and use tax administration.

**About COST**

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of approximately 550 major corporations engaged in interstate and international business. COST's objective is to preserve and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

**S.B. 887 Achieves the Goals of Fairness and Efficiency**

When purchases are made, the purchaser is liable for the state use tax. If the purchaser provides the tangible personal property it purchases to a person engaged in constructing, altering, repairing, or improving real estate for the purchaser (*i.e.*, to a contractor), the purchaser remains liable for the use tax on its purchase. The contractor has no record of whether the seller of the property has paid the state sales tax or whether the purchaser has paid the use tax because, of course, the contractor is not a party to that transaction. Making the contractor the *de facto* enforcer of the State's sales and use tax laws is both unfair and inefficient. Moreover, imposing the tax on the contractor is of questionable legality, since the contractor does not exercise any right or power over the property "incident to the ownership of that property." The provisions of S.B. 887 reflect both a sensible application of the law and good tax policy.

We urge the Committee to approve S.B. 887. Please contact me with any questions regarding this testimony.

Respectfully,

A handwritten signature in black ink, appearing to read 'F. Hogroian', with a stylized, flowing script.

Ferdinand Hogroian

cc: COST Board of Directors

Douglas L. Lindholm, COST President & Executive Director